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ABSTRACT

A nationwide test of consumer knowledge of high school students conducted in 1991 found that seniors are unprepared for critical purchasing decisions needed after they graduate. Random samples of the population, 428 high school seniors, were asked 250 questions about a range of consumer subjects such as credit, checking/saving accounts, auto insurance, housing rental, food purchases, and car purchases. Of particular concern were the low scores on credit (38 percent), checking/savings accounts (36 percent), and auto insurance (40 percent). Blacks, Hispanics, the poor, and those enrolled in vocational postsecondary institutions scored lowest on the test. In general, Whites and Asians, those from upper income families, and those planning to attend college scored the highest. The seniors scored highest on items testing general knowledge and use of reasoning and computational skills. Consumer illiteracy among high school students reflects many factors including weak reading and math skills, inadequate consumer education, and lack of marketplace experience. Consumer education should be targeted at groups scoring the lowest on the test. (This document has two parts: a report of the results of the nationwide test and the multiple-choice test with answers.) (NLA)

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Student Consumer Knowledge: Results of a Nationwide Test

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Report prepared by:

Stephen Brobeck
Executive Director
Consumer Federation of America

Executive Summary

In the spring of 1991, the Consumer Federation of America and American Express Travel Related Services Company, Inc. jointly sponsored a nationwide test of consumer knowledge of high school students. The test was conducted by The Psychological Corporation.

The test found that high school seniors are virtually unprepared for the many critical purchasing decisions they will need to make after they graduate from school.

The teenagers tested were able to answer only 42 percent of the questions correctly — when they could have scored about 25 percent just by guessing. On questions administered both to the seniors and to adults a year earlier, the students scored, on average, 16 percentage points lower than the adults.

The 52 question multiple choice test was developed by more than a dozen experts from academia, business, government, and the consumer movement. It covered a range of questions on such essential consumer subjects as food purchases, home rentals, credit, checking, savings, auto insurance, and auto purchase. The 428 teenagers tested at shopping malls around the country represent a random sample of the nation's high school seniors.

Findings: Lowest Scores

The most striking finding of the test was how little high school seniors know about the products and services many will be required to purchase after graduation. Of particular concern are the low scores on credit (38%), checking/savings accounts (36%), and auto insurance (40%), and ignorance about the following specific topics:

The importance of the annual percentage rate (APR) of a consumer loan (18%);

The type of lender that charges the highest rates (37%);

The purpose of a credit bureau (33%) and what consumers can do if a credit report contains incorrect information about them (11%);

The extent to which auto insurance rates vary (18%);

A tenant's obligation to make all payments specified in a lease (33%);

The obligation of a landlord to obtain a court order before evicting a tenant (31%);

The type of grocery store usually offering the lowest prices (27%);

How ingredients are listed on food packages (22%); and

The coverage of an automobile service contract (33%).

The following demographic groups scored the lowest on the test: Blacks averaged 34%; Hispanics 35%; the poor 35%; and those headed after graduation to vocational/technical school 35%. The low scores of the poor are particularly unfortunate because these students are the most likely to leave school after graduation and work in low paying jobs.

Findings: Highest Scores

The seniors scored the highest on items testing general knowledge and the use of reasoning and computational skills. Questions on which the students scored the highest include:

The obligations of loan co-signer (72%);

The importance of bill paying record in getting a loan (68%);

The obligations of a landlord (63%);

The fact that national brands not on sale tend to be the most expensive food items (62%);

The significance of grade labels (66%); and

The meaning of "as is" in a used car contract (62%).

Causes and Solutions

Consumer illiteracy among high school students reflects many factors including weak reading and math skills, inadequate consumer education, and lack of marketplace experience.

As the nation's educational system is undergoing reevaluation and reform, it is important that consumer education be integrated into basic school curriculum. But, improving consumer literacy should not solely be the responsibility of our schools. Business, educators, parents and governmental leaders must all work together to address the problems of consumer illiteracy among students.

To receive a copy of the complete report of the test questions, answers and explanations, send $5.00 to:

Student Test Questions
Consumer Federation of America
1424 Sixteenth Street, N.W., Suite 604
Washington, DC 20036

Introduction

In 1989 and 1990, the Consumer Federation of America (CFA) and TRW worked with the Educational Testing Service (ETS) to test the consumer knowledge of adult Americans. Random samples of the population were asked 250 questions about 13 consumer subjects. The responses suggested that there are "huge gaps in the nation's consumer knowledge."

Extensively reported on by the news media, these results spurred efforts to improve the nation's consumer awareness, including a White House roundtable discussion in which leaders of several federal agencies participated. What this and other discussions concluded, however, was that the results of the adult test could not be generalized to students. One cannot assume that high school seniors, many of whom will shortly become major consumers, know less than or the same as adults. In fact, knowledge differences between adult age-groups suggest that there are major differences between the awareness of these seniors and older Americans. The extent and nature of these differences have significant implications for high school consumer education.

To remedy this knowledge deficiency, American Express Travel Related Services Company, Inc. (TRS) agreed to collaborate with CFA on a test of the consumer knowledge of high school seniors. The two groups contracted with The Psychological Corporation to help develop and administer the test. This organization in turn contracted with Response Analysis to administer the test to the sample population.

Methods

At the outset, CFA and TRS decided to limit knowledge tested to six key areas of consumption -- consumer credit, checking/savings, automobile insurance, housing rental, food purchase, and automobile purchase. Each of these areas is important to someone leaving school and becoming a major consumer of goods and services. These areas are even significant for many high school students who choose to continue their education. A large number, especially part-time students, earn incomes and manage their own consumption.

Restricting the test to six subjects made it possible to ask at least seven or eight questions about each subject, thus permitting generalizations about awareness in these areas, while allowing all questions to be administered to each member of the sample. Survey researchers have found that respondents are usually unwilling to take the time to answer more than 60 or 70 questions. Including all questions on one test form made it financially possible to have a

sample size of more than 400. (By contrast, each question on the earlier exam was administered to slightly more than 200 persons.) For a sample this large, the standard error is 3.3%. The test included 59 questions. Seven pertained to demographic characteristics -- gender, ethnicity, income of family, monthly spending, possession of a checking account, completion of a consumer education course, and plans after graduation from high school. The remaining 52 questions dealt with consumer knowledge -- 14 on credit, seven on checking/savings, seven on automobile insurance, eight on housing rental, eight on food purchase, and eight on automobile purchase. Most of these knowledge questions were asked earlier by ETS. The process of developing items for this test was rigorous and exhaustive. Moreover, for these questions, the knowledge of high school seniors and adults could be compared. Nevertheless, to test areas of knowledge not treated by the ETS exam, TRS, CFA, and The Psychological Corporation developed several new questions.

Questions tested several types of consumer knowledge of the subjects. These included:

Definitions- what important terms such as APR, comprehensive coverage, and unit pricing mean.

Cost- how to purchase goods or services efficiently, including awareness of relevant cost factors and their relative importance.

Problem resolution- how to solve problems related to products including awareness of consumer rights, seller rights, and government and nonprofit agencies.

Each question was asked in a multiple choice format with four possible responses. Thus, guessing would produce a score of about 25%. Questions ranged in degree of difficulty from the fairly easy to the very difficult. No effort was made to select a range of questions that would result in distributions similar to those of school exams. Nevertheless, given the character of the questions and the distribution of the scores, it is our judgment that scores of at least 75% indicate excellent understanding by high school seniors; scores between 60% and 74%, good understanding; scores between 45% and 59%, moderate understanding; and scores below 45%, poor understanding.

In March 1991, Response Analysis tested 428 high school seniors in shopping malls in the Atlanta, Boston, Chicago, Cincinnati, Dallas, Denver, Los Angeles, and New York City areas. In terms of its demographic character, the sample generally approximated the population of all high school seniors. Roughly half were female. Nearly three-quarters were White, 13% Black, 10% Hispanic, and the remaining 5% Asian or other. Twelve percent reported family income of under $15,000, 20% income between $15,000 and $25,000, 17% income between $25,000 and $35,000, 20% income between $35,000 and $50,000, and 30% income of more than $50,000. (Research suggests young people overestimate income.) Fifty four percent said they planned to attend a four-year college, and 18% a two-year college, after graduation from high school. Nine percent said they planned to attend a vocational or technical school, while 11% indicated they would work fulltime. Eleven percent said they had "other" plans.

In terms of their own consumption, 15% said they spend under $50 a month, 30% between $50 and $100, 34% between $100 and $250, 18% between $250 and $500, and 3% more than $500. Twenty two percent indicated they had their own checking account. Thirty five percent said they had taken a course in consumer education.

There are several interesting correlations between the demographic variables.

- Ethnicity and family income are highly associated. 55% of Whites and 57% of Asians reported family income of at least $35,000, but only 41% of Hispanics and 33% of Blacks reported income this high.
- Family income and monthly spending habits are directly related. Students from families with income under $15,000 typically spend $50-100 each month while those from families with income over $50,000 usually spend $100-250.
- Family income and post-graduation plans are strongly related. 33% of those from low income families, but 68% of those from high income households, plan to attend four-year colleges.
- Family income and the likelihood of having a checking account are correlated. 12% of those reporting family incomes of under $15,000, but 28% of those indicating incomes of more than $35,000, had an account.
- Not surprisingly, the larger the monthly spending, the more likely students were to have a checking account. Only 8% of those spending under $50, but 34% of those spending at least $250, had such an account.
- Monthly spending and consumer education are highly associated. Only 16% of those spending under $50 had taken a consumer education course while 46% of those spending at least $250 had taken one.

Thus, those with the highest incomes tend to be White, spend higher amounts each month, are more likely to have a checking account, and are most likely to plan to attend a four-year college. On the other hand, the less affluent are more likely to be Black or Hispanic, spend little each month, rarely have a checking account, and plan to enter the workforce, a trade school, or community college after graduation.

It should be noted that the population of high school seniors includes most, but not all, Americans in this age-group. A number have dropped out of school, while others are enrolled in earlier grades. On the other hand, there are a few persons older than 16 or 17 who are high school seniors. The decision to limit the sample population to these seniors reflected two factors. First, a large number of these persons will soon be forced to manage their own consumption. Second, one purpose of the study was to serve as the basis for improvements in secondary consumer education. This education is typically offered to high school juniors and seniors.

Findings

Overall Knowledge

The study revealed that, overall, high school seniors have a poor understanding of the consumption of essential products. The average score for the entire test was only 42%, and on none of the six subjects did the students score above 50%. Although a number of the questions were difficult, one could have scored 25% just by guessing.

The seniors scored lowest on financial services questions and highest on automobile purchasing. They scored only 36% on checking/savings, 38% on consumer credit, and 40% on automobile insurance. On the other hand, they scored 50% on buying a car. The students scored 44% on housing rental and on food purchase.

As the Table below shows, scores varied considerably by demographic characteristics.

Percentage scores by demographic characteristics

CHARACTERISTIC	SCORE
Gender	
Male	40%
Female	44
Ethnicity	
Asian (or Pacific Islander)	48
Black	34
Hispanic	35
White	44
Family Income	
Under $15,000	35
$15,000 - 24,999	40
$25,000 - 34,999	43
$35,000 - 49,999	43
$50,000 and over	44
Monthly Spending Habits	
Under $50	35
$50 - 100	42
$100 - 250	43
$250 - 500	45
Over $500	41
Personal Checking Account	
Yes	44
No	41
Consumer Education	
Yes	43
No	41
Graduation Plans	
Permanent full-time employment	40
Vocational/technical school	35
Two-year community college	41
Four-year college	44
Other	37

Regarding gender, women scored higher than men, by four percentage points. Regarding ethnicity, though only 14 Asian Americans were surveyed, they scored the highest (48%). Whites scored relatively high (44%). Blacks and Hispanics answered only slightly more than one-third of the questions correctly. Regarding family income, those from families with income under $15,000 scored 35%, and all those from families with income at least $25,000 scored 43%. There was little difference in the scores of the top three income groups. Regarding post-graduation plans, students who planned to attend a four-year college scored the highest (44%), and those planning to enrol in a vocational or technical school the lowest (35%).

One would expect that students with consumer training and with the most experience in consumption would score higher than those with neither, and this was the case. Those spending under $50 per month scored only 35%, while those spending $250-500 scored 45%. (The score of 41% for those spending over $500 probably is related to the small number of persons in this subsample -- 14.) Similarly, those with a checking account (44%) scored higher than those without one (41%). And those who had taken a consumer education course (43%) scored slightly higher than those who had not (41%). But neither of these two differences is statistically significant.

How knowledgeable are high school seniors compared to adults? Since the same 49 questions were asked by ETS to adults and by The Psychological Corporation to students, such a comparison is possible. On these items, adults scored an average of 16 percentage points higher. Moreover, they scored higher than the seniors on all but one of the 49 questions -- the query about the amount of sugar in a soft drink. Differences in scores varied among subjects. The gap was widest -- 19 or 20 percentage points -- on credit, checking/savings, and housing rental. It was narrowest -- 11 or 12 percentage points -- on auto insurance and food purchase. The difference on auto purchase was 14 percentage points.

Knowledge of Subjects

Consumer Credit

The 14 items on consumer credit tested knowledge of definitions, obtaining credit, the cost of credit, and making payments. The overall score on these questions was 39%.

Knowledge of the significance of co-signing for a loan (72%) and how installment loans are repaid (64%) is fairly high. On the other hand, awareness of the differences between credit, cash, charge, and debit cards is low. Only 29% understand that a card where full payment is due upon receipt of a monthly statement is a charge card; 45% think this type of card is a credit card. Furthermore, only 14% correctly identified a card where, upon use, funds are immediately withdrawn from one's account as a debit card.

There is good understanding of the factors lenders use to decide whether to extend credit. 68% are aware that "bill-paying record and income" are significant while 65% know that federal law permits the denial of credit for outstanding debts. Yet, there is a very poor understanding of credit bureaus. Most (52%) think these organizations approve or extend credit, and only 11% understand that, if one believes that the credit bureau includes inaccurate information in one's credit file, one has only the right to add an explanation to the file. 40% believe one has the right to see that it is corrected.

There is poor understanding of the costs of credit. Few appear to understand an annual percentage rate. Only 18% said this was the best indicator of the cost of credit while 42% said that the interest rate was the best indicator. Only 37% are aware that finance companies usually charge higher loan rates than banks, credit unions, and insurance companies. And only 26% know that, when a balance is carried over, credit card interest charges begin on the day of the purchase. 42% think that these charges begin one month after the purchase.

There is moderate to poor understanding of payments and debts. 43% are aware a creditor cannot legally discuss monies owed with a debtor's employer. 49% understand that the chief role of consumer credit counselling services is "working out acceptable payment schedules with creditors." Yet, only 14% are aware that, when a credit card is lost or stolen, one's legal obligation is to pay only the first $50 of unauthorized charges. Half believe that one must pay all charges until the theft is reported.

Checking/Savings

Each question on checking and savings dealt with one of these two types of accounts. The overall score on these items was 36%.

Given information about charges and account activity, 56% were able to compute the monthly cost of a checking account. But only 38% know that the way to avoid regular checking fees is to "keep a minimum balance in the account at all times." And only 21% understand that the payee as well as the payer is usually charged a fee when a check bounces.

There is poor understanding of the costs and yields of savings accounts. 36% identified interest rate as the most important factor in shopping for an account while 28% said type of institution and 22% said method of compounding. 43% understand the different types of interest compounding and which method pays the most interest. 38% know the meaning of "crediting". And only 22% are aware that a certificate of deposit usually pays a higher interest rate than does a money market account (38%), passbook savings account, or NOW account.

Auto Insurance

Items on auto insurance dealt with coverages, costs, complaint resolution, and agent representation. The average score on these questions was 40%.

There is a moderate understanding of coverages. 45% know the meaning of liability coverage and 47% the meaning of comprehensive coverage. Only 29% understand the significance of bodily limits. But, presented with information about a loss and a deductible, 64% were able to compute the amount of the claim.

Regarding costs, there is very poor awareness (18%) of the extent to which rates vary. Yet, 49% understand when it is advisable to drop collision coverage. Regarding complaint resolution, 42% identified the state as the "best level of government" from which to seek assistance. Regarding agent representation, only 27% know that agents legally represent the companies whose policies they sell; 47% believe agents represent both companies and buyers.

Housing Rental

Questions about housing rental concerned tenant obligations, landlord obligations and rights, and how to negotiate a lease. The average score on these items was 44%.

There is low understanding of tenant obligations. 43% know the purpose of a security deposit. 44% are aware that tenants usually pay separately for a phone, as opposed to items such as major building repairs and property taxes. Only 33% understand that tenants who sign a lease but do not move in are obligated to pay all rents during the period of the lease. Only slightly more (40%) are aware that a tenant who breaks a 12-month lease after nine months is obligated to make the remaining three monthly payments. 39% think one's obligation is only one month's rent.

There is better understanding of a landlord's obligations and rights. 63% are aware that these rights do not extend to "checking the contents of cabinets and refrigerators." 63% know that a landlord's obligations do not include installing electronic security systems. But only 31% understand that, in most areas, to evict a tenant a landlord must go to court. 37% are aware of the best strategy to pursue if a lease contains an objectionable clause.

Food Purchase

Items about purchasing food related to cost control and quality/ingredients. The average score on these questions was 44%.

There is poor to good understanding of cost factors. Only 27% identified "no frills" grocery stores as the type of store with the lowest food prices -- 44% said supermarkets were the least expensive. And only 29% are aware that buying only products for which the shopper has coupons is not a "technique for smart food shopping." But 47% understand the usefulness of unit pricing for comparison shopping. And 62% know that national brands at the regular price are the most expensive brands.

The same range of awareness exists also for factors related to quality. Only 22% know how ingredients are listed on a label. 44% think that this listing is by nutritional importance rather than by weight. 36% understand how much sugar is in a soft drink. But 55% are aware of the minimum fruit juice in fruit drink. And 66% understand the significance of grade labels.

Automobile Purchase

Questions about automobile purchase dealt with sources of information, costs, and the protection afforded by warranties and service contracts. The average score on these items was 50%.

There was moderate to good understanding of information sources and cost factors. Nearly half (47%) understand the meaning of a sticker price -- that it is the price a buyer "should begin bargaining from." 44% know that a car loses its value fastest in its first year. Nearly two-thirds (65%), however, are aware that an air bag can reduce insurance premiums. And two-thirds understand that a major advantage of a subcompact car is fuel economy.

There was a poorer awareness of warranties and service contracts. 62% understand the meaning of an "as is" contract on a used car. But only 35% know what a new car warranty covers -- 54% think replacement of fluids or an engine tuneup. And only 33% are aware what a service contract covers -- 43% think repairs made under warranty.

Knowledge by Demographic Groups

Gender

For all items, women scored four percentage points higher than men. The greatest differences were in the areas of housing rental (10 percentage points), food purchasing (7 percentage points), and consumer credit (10 percentage points). One cannot explain these differences in terms of other demographic variables. For example, men were almost as likely as women to have taken consumer education instruction.

Ethnicity

There were striking differences between the scores of different ethnic groups. For all questions, Whites scored 44% while Hispanics scored 35% and Blacks 34%. Hispanics did particularly poorly on consumer credit (33%). Blacks had especially low scores on checking/ savings (24%) and housing rental (29%). The gap between Whites and minorities was greatest on automobile purchasing questions. On this subject, Whites scored 53%, Blacks 36%, and Hispanics 39%.

Family Income

Students from the poorest families had the lowest scores on all subjects. The difference between them and more affluent students was especially large on automobile purchasing -- 13 or 14 percentage points between the two groups. Overall, the scores of those with family income of $25,000-34,999, $35,000-49,999, and over $50,000 are fairly similar -- 43%, 43%, and 44% respectively. But the first group is most knowledgeable about automobile insurance, and the third group is most informed about housing rental.

Monthly Spending Habits

As monthly spending increases, so does consumer knowledge. Those spending under $50 per month scored 35%, while those who spend $250-500 scored 45%. The greatest range of scores occurred on automobile purchasing, and the narrowest range on food purchasing.

Personal Checking Account

Those with checking accounts were not significantly more knowledgeable than those without them. This was true for each of the six subjects and for all questions taken together.

Consumer Education

Consistent with earlier research, those who had taken consumer education instruction are not much better informed than those who had not. For each subject, those receiving this instruction are only slightly more knowledgeable. One explanation advanced for the lack of a significant difference in knowledge between the two groups is that college prep students, who are more likely than others to be good test takers, are less likely to have taken consumer education instruction. Our test results provide modest support for this hypothesis (significant only at 0.20 level). 56% of those who had not taken a consumer education course, but only 49% of those who had, planned to attend a four-year college.

Graduation Plans

The greatest difference in scores for students with various post-graduation plans is between those planning to attend vocational/technical school (35%) and a four year college (44%). The largest gaps between these two groups are in the areas of checking/savings (13 percentage points), housing rental (11 percentage points), and automobile purchase (10 percentage points).

Conclusions

This test of consumer knowledge shows that high school seniors are not well prepared for the world of consumption. In general, their understanding of consumer credit, checking/savings, automobile insurance, automobile purchase, housing rental, and food purchase is poor. They not only answered only 42% of questions correctly, but also scored an average of 16 percentage points below adults.

These students are particularly uninformed about credit, checking/savings, and automobile insurance. Scores for all these financial services questions averaged under 40%. By contrast, scores on automobile purchasing items averaged 50%.

The seniors scored higher on certain types of questions than on others. They tended to do best on those items that tested general knowledge and permitted the use of reasoning and computational skills. For example, they scored above 60% on questions concerning the character of an installment loan, factors lenders use in allocating credit, the size of an automobile insurance deductible, landlord obligations and rights, differences between food brands, air bags and insurance rates, subcompacts and fuel economy, and the meaning of an "as is" contract.

By comparison, the students did most poorly on items testing specific knowledge of products, especially that related to financial services. For instance, they scored below 30% on questions concerning the nature of charge cards, credit cards, credit bureaus, and APR. They also scored poorly on cost-related items such as credit card charges, bounced check fees, CD yields, bodily injury coverages, and the variation of automobile insurance rates.

Some seniors did much better than others. In general, Whites and Asians, those from middle and upper income families, and those planning to attend a four-year college scored the highest. Blacks and Hispanics, those from low and lower middle income families, and those not planning to attend college not only scored the lowest, but also are the neediest. They are the most likely to become major consumers of goods and services after graduating from high school, yet are the least likely to earn high incomes. To the extent consumer education should be targeted, it should be directed at these groups.

For additional information, contact:

American Express Company
Office of Public Responsibility
World Financial Center
New York, NY 10285-4700

Consumer Federation of America
1424 Sixteenth Street, N.W.
Suite 604
Washington, DC 20036

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Q&A Student Consumer Knowledge: Nationwide Test

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These results were released in September, 1991.

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The most striking finding of the test was how little high school seniors know about the products and services many will be required to purchase after graduation. Of particular concern are the low scores on credit (38%), checking/savings accounts (36%), and auto insurance (40%), and ignorance about the following specific topics:

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Causes and Solutions

Consumer illiteracy among high school students reflects many factors including weak reading and math skills, inadequate consumer education, and lack of marketplace experience.

As the nation's educational system is undergoing reevaluation and reform, it is important that consumer education be integrated into basic school curriculum. But, improving consumer literacy should not solely be the responsibility of our schools. Business, educators, parents and governmental leaders must all work together to address the problems of consumer illiteracy among students.

To receive a copy of the complete report of the test findings, send $5.00 to:

Student Test
Consumer Federation of America
1424 Sixteenth Street, N.W., Suite 604
Washington, DC 20036

A User's Guide

Issue: Consumer Literacy

Consumer illiteracy imposes costs on individuals as well as society. As individuals, it means that our ability to cope with the world of consumption in making sound purchasing decisions for basic goods and services handicaps anyone seeking to become financially independent. It affects the quality of life we achieve on a day-to-day basis. High school seniors are particularly vulnerable because they are most likely to make critical purchasing decisions as they graduate from school. As a nation, without adequate knowledge, people cannot make smart shopping decisions — decisions that reward efficient, competitive businesses.

Directions

Test yourself, family members, students, and friends using the questions that follow to determine your consumer literacy score. Select one answer for each question.

The correct answer and the percentage of high school students who responded correctly along with a brief explanation are provided for each question.

Obtain your score by adding the number of questions answered correctly and dividing this total by 52 (the total number of questions) to find the percent correct for the entire test. For example: 35 correct / 52 = .673 or 67%.

Follow-Up

If you wish to learn about the purchase of these and other consumer products, consult the following and other sources of information:

1. *Consumer Reports*, other consumer magazines, self-help books, and other publications found in local libraries.
2. State and local consumer agencies, including local Cooperative Extension offices, which are listed in telephone directories.
3. Pamphlets listed in the Consumer Information Catalog published by the federal government. For a copy of this catalog, write to Pueblo, CO 81009.
4. Courses or workshops offered by local high schools, community colleges and community agencies.

Questions

Credit

1. If a person cosigns a loan for a friend, then that person

(a) becomes eligible to receive part of the loan principal.
(b) vouches for the friend's reliability but has no legal obligation for the loan.
(c) is responsible for repaying the loan if the friend defaults.
(d) cannot get a personal loan until the cosigned loan has been fully repaid.

2. Full payment is due upon receipt of the monthly statement for which card?

(a) Debit card
(b) Credit card
(c) Charge card
(d) Cash card

3. Funds are immediately withdrawn from a consumer's bank account when a purchase is paid with a

(a) charge card.
(b) cash card.
(c) debit card.
(d) credit card.

4. How are installment loans usually repaid?

(a) In fixed monthly installments
(b) In variable monthly installments set by the borrower
(c) In variable monthly installments set by the lender
(d) All at once at the end of a specified period

5. The MOST important factors that lenders use when deciding whether to approve a loan are

(a) marital status and number of children.
(b) education and occupation.
(c) age and gender.
(d) bill-paying record and income.

6. Federal law allows lenders to deny credit for which of the following reasons?

(a) Age
(b) Gender
(c) Outstanding debts
(d) Income from public assistance

7. What does a credit bureau do?

(a) Approves applications for credit
(b) Informs applicants of the reasons for denial of credit.
(c) Extends credit to qualified applicants
(d) Provides creditors with reports of consumers' bill-paying records

8. If an individual believes that there is incorrect information in his/her credit bureau file, then that individual has the right to

(a) forbid the credit bureau to send out the file.
(b) receive a copy of this file.
(c) have the information corrected.
(d) add a personal explanation to the file.

9. The BEST indicator of the cost of a loan is the

(a) number of monthly payments.
(b) monthly payment amount.
(c) interest rate.
(d) annual percentage rate.

10. Which of the following institutions usually charges the HIGHEST rate of interest on an unsecured consumer loan?

(a) A credit union
(b) A local bank
(c) An insurance company
(d) A finance company

11. If a credit card account has a balance carried over from the previous month, when will interest charges usually begin on a new credit purchase?

(a) On the day of the purchase
(b) One month after the date of purchase
(c) After a two-week grace period
(d) After a two-month grace period

12. The owner of a credit card that is lost or stolen is legally responsible for

(a) any unauthorized charges.
(b) any unauthorized charges until the loss or theft is reported.
(c) only the first $50 of any unauthorized charges.
(d) no unauthorized charges.

13. If a consumer fails to pay personal debts, a creditor is allowed to do all of the following EXCEPT

(a) discuss the consumer's debts with his or her employer.
(b) bring suit against the consumer.
(c) tell a credit bureau that the account is delinquent.
(d) turn the account over to a professional debt collector.

14. Nonprofit credit counseling services usually assist debtors by

(a) working out acceptable payment schedules with creditors.
(b) helping them file for bankruptcy.
(c) offering money management courses.
(d) representing them in court against creditors.

Checking/Savings Accounts

15. To avoid all regular fees on a checking account, the account holder usually MUST

(a) write only a limited number of checks.
(b) make only a limited number of deposits.
(c) keep a minimum balance in the account on at least one day a month.
(d) keep a minimum balance in the account at all times.

16. A checking account has a $5.00 monthly service fee and $.25 per-check-written fee. What amount would be charged to the account if 10 checks were written on this account in a month?

(a) $2.50
(b) $5.00
(c) $7.50
(d) $10.00

17. When a check bounces, who, if anyone, is usually charged a fee?

(a) The check writer only
(b) The person to whom the check is written only
(c) Neither the check writer nor the person to whom the check is written
(d) Both the check writer and the person to whom the check is written

18. If interest on a savings account is compounded daily and credited quarterly, how long must a person keep the account open to receive any interest?

(a) 1 day
(b) 1 month
(c) 3 months
(d) 1 year

19. When shopping for a savings account, a consumer should pay the MOST attention to

(a) the annual interest rate.
(b) the gift or premium given for opening an account.
(c) whether the account would be in a bank, savings and loan, or credit union.
(d) how frequently the interest is compounded.

20. Which interest rate would pay the MOST on a savings deposit of $1,000?

(a) 8% simple interest
(b) 8% interest compounded daily
(c) 8% interest compounded quarterly
(d) 8% interest compounded semi-annually

21. Which deposit account usually pays the MOST interest?

(a) Certificate of deposit
(b) Passbook savings account
(c) NOW account
(d) Money market account

Auto Insurance

22. Which type of auto insurance protects a person from loss resulting from lawsuits?

(a) Collision
(b) Liability
(c) Comprehensive
(d) Uninsured motorist

23. If a car is stolen, what type of insurance coverage pays for its replacement?

(a) Uninsured motorist
(b) Liability
(c) Comprehensive
(d) Collision

24. If a person suffers a $500 loss that is insured under a collision car insurance policy with a $100 deductible, how much money should the person receive for that loss?

(a) $100
(b) $400
(c) $500
(d) $600

25. If an auto insurance policy has bodily injury limits of $100,000/$300,000, the insured person is covered for

(a) $100,000 for each accident and $300,000 for the life of the policy.
(b) $100,000 for medical bills and $300,000 for hospital costs.
(c) $100,000 for each person injured and up to $300,000 for each accident.
(d) $100,000 for people in the insured auto and $300,000 for people outside the insured auto.

26. Auto insurance prices offered by different insurance companies to people who live in the same area, have the same accident history, and drive the same type of auto can vary by as much as

(a) 100% or more
(b) about 60%
(c) about 30%
(d) 10% or less

27. It is often NOT advisable to buy collision coverage on an auto that is

(a) driven only for pleasure.
(b) old and run-down.
(c) driven only short distances.
(d) still under warranty.

28. If a person has an unresolved complaint against an insurance company, what is the BEST level of government contact?

(a) Local
(b) County
(c) State
(d) Federal

29. An insurance agent legally represents

(a) only herself or himself.
(b) only the insurance company.
(c) only the insured person.
(d) both the insured person and the insurance company.

Housing Rental

30. A security deposit is usually required as part of a rental agreement so that the landlord can apply this amount toward

(a) charges for normal wear and tear.
(b) improvements to the rental unit.
(c) damages caused by the tenant's negligence.
(d) the last month's rent on the lease.

31. In addition to the monthly rent, tenants usually pay separately for

(a) their share of property taxes on the building.
(b) their share of any major repair costs.
(c) maintenance of the apartment grounds.
(d) telephone installation and use charges.

32. Mr. and Mrs. O'Brien sign a one-year lease for an apartment at $400/month, but change their minds and never move in. Legally, they owe the landlord

(a) $400.
(b) $800.
(c) $1,200.
(d) $4,800.

33. If a tenant is forced to break a 12-month lease after 9 months because of a family emergency, the tenant is legally obligated to pay the landlord

(a) no additional rent.
(b) 1 month additional rent.
(c) 2 months additional rent.
(d) 3 months additional rent.

34. A landlord is usually responsible for providing all of the following EXCEPT

(a) water.
(b) maintenance of common areas.
(c) adequate heat.
(d) electronic security systems.

35. In most areas of the United States, a landlord must do which of the following in order to evict a tenant?

(a) Go to court
(b) Contact the local police
(c) Have the locks changed
(d) Inform the local housing authority

36. A landlord usually can enter a tenant's apartment to do all of the following EXCEPT

(a) make repairs.
(b) show the apartment to a prospective tenant.
(c) check the contents of cabinets and refrigerators.
(d) check on smoke coming from the apartment.

37. If a lease on an apartment is acceptable except for one objectionable clause, it is usually best for the tenant to

(a) sign the lease.
(b) sign the lease and then file a complaint with a local tenant union.
(c) ask the landlord to verbally promise not to enforce the objectionable clause.
(d) ask the landlord to strike out the objectionable clause.

Food Purchases

38. Which type of store is likely to have the lowest food prices?

(a) A convenience store
(b) A supermarket
(c) A "no-frills" grocery store
(d) A corner mom-and-pop grocery store

39. Which of the following are usually the MOST expensive?

(a) National brands at regular price
(b) National brands with coupons
(c) National brands on sale
(d) Store brands at regular price

40. What is unit pricing MOST useful for?

(a) Seeing what the store owner paid for a food item
(b) Showing what an item would cost if bought in large quantities
(c) Comparing prices of different brands and sizes of the same food
(d) Showing what an item would cost with a store coupon

41. Which of the following is NOT a technique for smart food shopping?

(a) Buying only those products for which the shopper has coupons
(b) Preparing a grocery list before shopping
(c) Using unit prices to make comparisons
(d) Shopping after having eaten

42. The ingredients on food labels are listed

(a) alphabetically.
(b) by nutritional importance, from most to least.
(c) in any order the manufacturer chooses.
(d) by weight, from most to least.

43. A grade such as Grade AA, A, US No. 1, or USDA Choice on a food indicates that the food

(a) meets certain product quality standards.
(b) meets minimum nutritional standards.
(c) may be sold interstate.
(d) is safe to eat.

44. By law, a beverage that is called a "fruit drink" MUST contain at least

(a) 5% fruit juice.
(b) 10% fruit juice.
(c) 50% fruit juice.
(d) 100% fruit juice.

45. How many teaspoons of sugar does a typical 12-ounce can of carbonated soft drink contain?

(a) 1
(b) 5
(c) 10
(d) 20

Car Purchases

46. Car service contracts are intended to pay for

(a) rental car charges while the owner's car is being repaired.
(b) repairs not covered by the warranty.
(c) repairs made under the car warranty.
(d) repairs resulting from an accident.

47. The sticker price on the side window of a new car is the price that a buyer

(a) should begin bargaining from.
(b) pays if paying cash.
(c) has to pay.
(d) pays if buying on credit.

48. In which year after a car is bought does it lose its value fastest?

(a) First year
(b) Second year
(c) Fourth year
(d) Seventh year

49. Which option on a new auto may save the owner money on insurance?

(a) Air bags
(b) Fog lights
(c) A tinted windshield
(d) Undercoating

50. What is the major advantage of buying a subcompact auto over other types?

(a) Fuel economy
(b) Safety
(c) Riding comfort
(d) Highway performance

51. When a person buys a used auto "as is," the term "as is" means that the

(a) buyer has to repair the auto if anything goes wrong with it.
(b) buyer gets a limited written warranty.
(c) seller has to repair major problems that arise during a reasonable time after the auto is sold.
(d) seller has to repair major problems that exist when the auto is sold.

52. During the first 12,000 miles, the warranty on a new car will usually cover

(a) replacement of worn tires.
(b) repair of the transmission.
(c) replacement of fluids (oil, brake, coolant, etc.).
(d) an engine tune-up.

Answers

Credit

1. (c) Score: 71%

When people cosign a loan, they sign the contract extended by the lender to the borrower. By doing so, they agree to pay off the debt if the borrower fails to do so, and can be sued by the lender if they refuse to do so.

2. (c) Score: 29%

Charge cards can be used by shoppers to pay for products. Although they require no interest payments, their balances must be paid off in full after the monthly statement is received.

3. (c) Score: 14%

A debit card looks like a credit card, but is more similar to a checkbook. When payment is made with a debit card, funds are immediately withdrawn electronically from the user's checking account, and there is no interest charge.

4. (a) Score: 64%

Installment loans are typically repaid in monthly installments of the same amount. In only a few cases (variable loans with a fluctuating interest rate) will this amount vary, and then, not by much.

5. (d) Score: 68%

Since the income and bill-paying record of borrowers are the most reliable indicators of whether they will repay a loan, they represent the two most important factors that lenders use in deciding whether to approve a loan. Besides, federal law prohibits lenders from using age and sex as factors in making this decision.

6. (c) Score: 65%

A federal law prohibits lenders from refusing to lend money to borrowers because of age, sex, or participation in welfare programs. But the law does allow this refusal to borrowers because of their outstanding debts.

7. (d) Score: 33%

Most areas have a credit bureau that uses information supplied by lenders to keep a record of a person's bill-paying history. When a borrower applies for a loan, lenders then purchase this information to help them decide whether to lend the money.

8. (d) Score: 11%

Federal law does give consumers the right to learn what information a credit bureau has about their bill-paying history. The law requires federal agencies to disclose the "nature and substance" of all information about the consumer in its files. It permits the consumer to dispute any of that information and requires the agency to investigate those disputes. If the investigation concludes that the information is inaccurate, the information must be deleted. If the dispute is not resolved to the consumer's satisfaction, he or she has the right to add an explanation to the file.

9. (d) Score: 18%

The cost of a loan includes the money borrowed (or principal), interest charges, and any other charges. The annual percentage rate (APR) indicates the level of all these charges and must be disclosed on any loan agreement. The monthly payment is not a good indicator of this cost because it varies with the number of payments.

10. (d) Score: 37%

Finance companies and retailers usually charge the highest interest rates on loans. Banks and credit unions offer lower rates, as do life insurance companies who permit policyholders to borrow on whole life policies.

11. (a) Score: 26%

When old purchases have been fully paid, on new purchases made with a credit card, the buyer has a grace period of 3-4 weeks to make the payments before interest is charged. But when a balance, however small, is carried over from the previous month, on these new purchases buyers usually must begin paying interest on the day of purchase.

12. (c) Score: 14%

A federal law limits the holder of a lost or stolen credit card only to the first $50 of unauthorized charges, regardless of whether the loss is reported to the credit card issuer.

13. (a) Score: 43%

Federal law prohibits lenders from calling or writing the employer of a borrower about an unpaid debt. Lenders can, however, report the delinquency to a credit bureau, employ a professional debt collector, or sue the borrower.

14. (a) Score: 49%

Consumer credit counseling services help consumers with debt problems by counseling them individually and by negotiating reasonable payment schedules with lenders. In return, the consumers must agree to allow the counseling service to take a certain percentage of their income, usually up to 25%, to make payments to these creditors.

Checking/Savings Accounts

15. (d) Score: 38%

In most regular checking accounts, to avoid monthly fees consumers must keep a minimum (or average) balance in the account at all times. This balance typically ranges from $500 to $1000. If it is not kept, the consumers are usually charged both monthly and per check fees.

16. (c) Score: 56%

At $.25 per check, 10 checks would cost $2.50. With a $5.00 monthly service fee, the total cost would be $7.50.

17. (d) Score: 21%

At almost all banking institutions, when a check bounces both the check writer and the person to whom the check is written are charged a fee by their bank. These fees typically range between $10 and $20.

18. (c) Score: 38%

Crediting means that interest accumulating on a savings deposit is actually available to be paid to a depositor. Thus, on an account that is credited quarterly, a depositor must keep the account open for three months (or one-quarter of a year) in order to receive the interest. By comparison, an account with monthly crediting must only be maintained for a month in order to receive interest.

19. (a) Score: 37%

The interest rates, the method of compounding, the type of lending institution, and any free gifts are all factors that consumers should consider in choosing a savings account. But in almost all cases, the annual interest rate is the most important influence on the financial benefits that consumers will receive from the account.

20. (b) Score: 43%

Interest compounding is the extent to which a banking institution pays interest on interest. The more frequently the interest is compounded, the higher the annual rate. Thus, all other factors being equal, daily compounding will pay a higher annual rate than either quarterly or semi-annual compounding, and a simple interest rate is not compounded at all.

21. (a) Score: 22%

At almost all banking institutions, a certificate of deposit (CD) pays more interest than does a NOW account, savings account, or money market account. But depositors have restricted access to their funds until the CD matures.

Auto Insurance

22. (b) Score: 45%

Liability coverage on an auto insurance policy protects drivers against lawsuits from other people who suffer losses in an accident.

23. (c) Score: 47%

Comprehensive coverage on an auto insurance policy pays for the losses on or damage to the car from theft, fire, vandalism, floods, and other perils.

24. (b) Score: 64%

A deductible is an amount that a driver agrees to pay for accident related losses, usually damage to one's own car. Thus, with a $100 deductible, the insurer would pay only $400 on a $500 loss.

25. (c) Score: 29%

On an auto insurance policy with bodily injury limits of $100,000/$300,000, the policyholder is covered for up to $100,000 for each person injured and up to $300,000 for each accident.

26. (a) Score: 18%

Most surveys show that, for the same consumer, auto insurance rates charged by different insurers vary by more than 100% and sometimes by as much as 300 - 400%. Thus, comparison shopping for this insurance can lower consumer costs substantially.

27. (b) Score: 49%

When a car reaches a certain age or condition, it may not make financial sense to continue buying collision insurance coverage. The consumer must decide whether the car is worth enough to justify paying for this insurance.

28. (c) Score: 42%

Insurance is regulated by state insurance departments, and all provide consumer services, including assistance in resolving complaints.

29. (b) Score: 27%

Although insurance agents can be of great assistance to consumers, they legally represent insurance companies in their dealings with policyholders. Thus, consumers must independently evaluate all advice and recommendations from these agents relating to coverages, prices, and claims.

Housing Rental

30. (c) Score: 43%

Landlords nearly always require new tenants to pay a security deposit to pay for any damages caused by the tenants, whether negligent or intentional. If there are no such damages, landlords must return this deposit in full at the end of the lease period.

31. (d) Score: 44%

Monthly rent paid by tenants is to be used by landlords to cover expenses such as property taxes, major repairs, and maintenance. Tenants, however, must pay for the installation and use of their own phone.

32. (d) Score: 33%

When the O'Briens signed the lease, they legally obligated themselves to pay all 12 months rent, $4800.

33. (d) Score: 40%

When tenants sign a 12 month lease, they are legally obligated to make all 12 monthly rent payments. Even if they are faced with a family emergency, they can be forced by landlords to repay the remaining three months rent.

34. (d) Score: 63%

Most leases require landlords to provide water, heat, and building maintenance. However, few require the provision of electronic security systems. And if these are not in the lease, tenants usually cannot require landlords to install them.

35. (a) Score: 31%

To evict tenants, landlords in most areas are required to go to court and obtain an eviction notice. They are not permitted to change the locks or take other extreme measures without this court order.

36. (c) Score: 63%

Landlords do have the right to enter tenants' apartments to make repairs, investigate possible fires, and show the units to prospective tenants. But beyond this, they are not permitted to invade the privacy of tenants.

37. (d) Score: 37%

The typical lease is a complicated legal document that emphasizes landlord rights and tenant obligations. But sometimes a landlord will strike out an offensive provision, so it is usually worthwhile for tenants to make this request.

Food Purchases

38. (c) Score: 27%

A "no-frills" grocery store is the type of food store most likely to have the lowest prices. On the other hand, it usually has fewer personnel and services, and lacks other features desired by some shoppers.

39. (a) Score: 62%

National brands at regular prices are almost always more expensive than store (or house) brands. But the prices of national brands can be lowered by sales or coupons.

40. (c) Score: 48%

Unit prices are found on shelf labels and indicate the price per pound, quart or other measure. Thus, they help shoppers compare the relative prices of name brand and store brand products of different sizes, for example, 24 oz. and 16 oz. cans.

41. (a) Score: 29%

To avoid the temptation to buy items not really needed, shoppers should not shop when they are hungry, should use a list prepared before shopping, and use unit prices on shelf labels to compare different-sized packages. They should not simply purchase products for which they have coupons because these products may not be really needed or wanted.

42. (d) Score: 22%

The ingredients on food labels are listed by weight, from the most to the least. So, for example, if a cereal lists sugar as the first ingredient, there is more sugar than grain in that cereal.

43. (a) Score: 66%

Grades such as AA, A and USDA Choice do not indicate that foods meet any nutritional or safety standards. They signify only that the foods meet certain product quality standards that are approved by the USDA.

44. (b) Score: 55%

A beverage called a "fruit drink" must contain at least 10% fruit juice, and few contain much more than this percentage.

45. (c) Score: 36%

A typical 12—ounce can of soft drink contains 10 teaspoons of sugar. Diet soft drinks usually contain artificial sweeteners rather than sugar.

Car Purchases

46. (b) Score: 33%

These contracts supplement warranties by paying for some repairs that are not covered by the warranties. But almost all of these service contracts are greatly overpriced.

47. (a) Score: 47%

The sticker price on a new car is usually negotiable downward. Particularly if one bargains with two dealers at the same time, a buyer can usually save at least several hundred dollars.

48. (a) Score: 44%

In dollars, as well as in percentage, a car loses the greatest value during its first year. That is one reason why buying a late model used car can be a real money saver.

49. (a) Score: 65%

Air bags in cars will often qualify owners for a discount on their auto insurance. This is because air bags make them less likely to be killed or injured in an accident.

50. (a) Score: 66%

Mainly because they are lighter, small cars usually use less fuel than do larger cars. The savings is typically several hundred dollars when a car is driven about 10,000 miles.

51. (a) Score: 62%

"As is" contracts free car dealers from any responsibility for problems with cars they sell. Buyers should not sign them unless they know about any problems with the car and are prepared to accept them.

52. (b) Score: 35%

New car warranties will usually cover all repairs to the transmission, as well as the engine and drive train, during the first 12,000 miles the car is driven. Warranties on some new cars cover these repairs during the first 50,000 - 60,000 miles driven.

For additional information, contact:

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